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SUBJECT: The Gas Dance Begins

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¶1. Summary: Belarus and Gazprom have entered into negotiations of sorts on the price of gas for 2007. Gazprom announced that Minsk can expect to pay USD 145/tcm (up from USD 466.68/tcm), while the GOB responded it could agree to an 11 percent price increase (to USD 51.81). Other than consecutive public statements, there do not appear to be any actual negotiations underway. According to a GOB press release, Lukashenko and Putin talked around the gas price issue at their April 28 meeting in St. Petersburg. The GOB also continues to refuse to sell half of Beltransgaz to Gazprom, but Lukashenko reportedly told Putin Minsk could trade some Beltransgaz assets for access to Russian oil and gas fields. End summary.

¶2. On April 28, the same day Presidents Lukashenko and Putin met in St. Petersburg, Gazprom announced that the GOB had failed to provide a counter-offer to Gazprom's earlier announcement that it would raise the price Belarus pays for gas in 2007, and suggested Belarus therefore pay USD 145/thousand cubic meters (tcm). [Note: Belarus currently pays USD 46.68/tcm. In March Gazprom announced it expected the GOB to provide a counter-offer by the end of April (reftel).] On May 3, Belarusian Deputy Prime Minister Vladimir Semashko told Interfax that Belarus would agree to a rise in gas prices for 2007 of between 10 and 15 percent, although he suggested 11 percent. Semashko claimed Belarus deserved such a low rate increase because Gazprom currently has a profit margin of 25 percent, which Belarusian industries cannot match, and because Minsk has never cut-off Gazprom's transit to Europe.

Lukashenko and Putin Talk Around the Issue

¶3. Lukashenko's press service announced that Lukashenko and Putin did not discuss gas pricing on April 28, and instead expect their governments and companies to reach a pricing agreement by October. However, the press service announced that, "the Russian government has no intention of blackmailing Belarus and understands that our country is Russia's only true ally and partner." An anonymous Russian source told RIA Novosti during the meeting that Belarus would have more luck paying for gas if it would adopt a common currency with Russia.

¶4. Lukashenko's press service claimed that the two leaders discussed the fate of GOB-owned gas pipeline company Beltransgaz, at Lukashenko's insistence. A press release specifically claimed Lukashenko did not offer to sell half of Beltransgaz, but that he suggested exchanging some Beltransgaz assets for Belarusian access to Russian oil and gas fields. Lukashenko's spokesman claimed, "The Belarusian side received understanding and approval" for this idea.

Negotiations Likely to be Tough

¶5. Over the past month various GOB officials have publicly explained that Minsk does not expect gas prices to rise greatly, and that Belarus does not plan on selling half of Beltransgaz to Gazprom. On March 31, Beltransgaz director Dmitry Kazakov told the press Belarus should pay less for Russian gas because Belarus is Russia's Union State partner. On April 14, Lukashenko told reporters that Russia cannot sharply raise gas prices for Belarus because under the Union State agreement Belarusian and Russian companies should operate under identical conditions, meaning identical energy costs. That same day Deputy Prime Minister Andrey Kobyakov told the press Belarus added a provision demanding equal conditions for companies in all member states to the draft agreement on a single oil and gas market for the Eurasian Economic Community. Energy Minister Aleksandr Ageev meanwhile explicitly stated Belarus was not offering to create a Beltransgaz joint venture with Gazprom.

Serious Repercussions for the Economy

¶6. On April 19, local World Bank analyst Marina Bakanova told a conference that Belarus would lose 13 percent of GDP if it is forced to pay market rate (USD 235/tcm) for gas. A price rise to USD 110/tcm would cost Belarus four percent of GDP, and the country would lose 0.5 percent of GDP if prices rise only to Russian domestic levels for 2007. She also estimated that the GOB could not compensate by raising gas transit rates as the most this would earn would be one percent of GDP. The National Bank of Belarus (NBB) announced April 13 that any rise in gas prices above 10 percent would result in a drop in currency proceeds and affect the exchange rate. The NBB further stated that if gas were to climb to USD 95/tcm, the economy would suffer greatly, currency proceeds would drop, gold and foreign currency reserves would dwindle and

there would be problems with the exchange rate.

Comment

¶7. Minsk continues to challenge Moscow and Gazprom on both rising gas prices and the control of Beltransgaz. Surprisingly, Belarus has succeeded in outmaneuvering Russia on these issues for the past several years. This year, rather than waiting until mid-December to start negotiations, Gazprom is giving itself plenty of time to force what it wants (higher prices, Beltransgaz) out of Minsk. While it is unlikely that Belarus would be forced to pay USD 145/tcm, a price that would cripple the Belarusian economy and possibly destroy Lukashenko's popularity, this time around Moscow seems determined to raise prices. Whatever price increase the two sides agree to, the GOB will be less able to afford the social projects that keep the populace happy, to keep subsidizing bankrupt state enterprises, and Belarus' recent rates of high economic growth will decline.

PHLIPOT